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SUBJECT: LESOTHO: FOCUS SECTORS FOR AGOA DIVERSIFICATION EFFORTS

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11. SUMMARY: In order to better focus Embassy Maseru's efforts to assist Lesotho in diversifying its exports to the United States under AGOA, the Economic Section (ES) conducted an informed study of the nation's promising export growth sectors. Three products lines were identified: blue-agave aloe cosmetics, canned foods, and handicrafts. As we move forward to encourage increasing non-textile AGOA exports from the Mountain Kingdom, Embassy Maseru's ES will focus on these three products in our short to medium term efforts. END SUMMARY.

AGOA Diversification: Where
Should We Focus Our Efforts?

12. In order to better support Lesotho's efforts to diversify its exports to the United States under AGOA, over the last several months Embassy Maseru's Economic Section (ES) endeavored to identify the nation's most promising sectors for export growth. To this end, Embassy officers held meetings with officials from the Ministry of Trade, the Lesotho National Development Corporation, the "Smart Partnership" office, Lesotho's Business Council, and various small- to medium-sized enterprises. Information from these meetings was compared to data from industrial diversification studies conducted by the regional USAID Trade Hub, and three top products for potential AGOA diversification efforts were identified: blue-agave aloe cosmetics, canned foods, and handicrafts. A brief explanation of these sectors is provided below.

Blue-Agave Aloe Cream and Jelly

13. Blue-agave aloe is a naturally occurring plant in Lesotho which can be used to produce aloe cosmetic products popular in the United States. Currently, three companies manufacture aloe cream and jelly: EV, Lamart, and Makhaleng. These companies are

now in advanced negotiations to join under an umbrella company so that they can take advantage of greater economies of scale necessary for success in large export markets such as the United States. These companies currently produce aloe cosmetics which meet both American FDA and South African Bureau of Standards requirements. At the present time, Lesotho's aloe products are sold exclusively in the local and South African markets.

¶4. While USG trade experts have not yet reviewed these products' AGOA eligibility, Embassy Maseru's believes that these items are eligible skin care products classifiable under HTS codes 3304 and 3304.99.10. While the aloe products are produced to FDA standards, capacity building is needed in this industry to ensure that branding and packaging meet U.S. requirements and standards.

Canned Foods

¶5. Lesotho currently operates one cannery which began operations in December 2004. Its products include canned apricots, peaches, asparagus, and beans. The cannery currently exports its products mostly to the SACU region, with a small proportion exported to the European Union. The Ministry of Agriculture is intensifying its efforts to enlarge the production base for these products and modernize cultivation methods. Many observers emphasize the promise of canned asparagus, as it is a drought resistant crop suited to Lesotho's arid climate which commands a premium over other canned fruits and vegetables.

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¶6. These products are eligible for export under AGOA, and fall into food and fruit HST codes 2008.03.85 and 2006.00.60. Trade capacity development would be necessary for these products to gain FDA certification and be packaged properly for the U.S. market.

Handicrafts

¶7. Handicrafts, made from local materials, are produced on a small to medium scale by cooperatives and several small companies. These products include locally printed garments, cushions, rugs mats, and baskets. Ethiopia, Tanzania, and Zambia have successfully exported items of this type under AGOA. Of products in this category, mohair items are judged to be of special promise due to the premium which they demand in the U.S. market as well as abundant local supply.

¶8. These products fall under "Category Nine" of AGOA, and therefore approval must be sought prior to export. Trade capacity development is necessary to draw together the diverse and scattered producers of these products and market them in the United States.

AGOA Diversification: The Next Step

¶9. Identifying Lesotho's most promising sectors for export diversification under AGOA is an important first step in Embassy Maseru's efforts in this field. The Embassy's ES will continue to work closely with the "Smart Partnership" office, the Ministry of Trade and Industry, and Lesotho's Business Council to promote AGOA-eligible exports from Lesotho. During the month of July, the Embassy is working cooperatively with Lesotho's "Smart Partnership" office to conduct outreach workshops to reach a wide group of stakeholders involved in the above focus industries. The Embassy is also working closely with the regional USAID Trade Hub for its assistance in facilitating these workshops and developing vital trade capacity in these three focus industries.

The Necessity of AGOA Diversification

¶10. COMMENT: With over 50,000 jobs initially created in Lesotho's textile and garment industries, AGOA is an undeniable success in Lesotho. The nation's exports to the United States have increased by 269% since the inception of the legislation. However, the fragility of the textile industry was amply demonstrated by the immediate loss of nearly 15,000 textile jobs in Lesotho following the 2005 expiration of the Multi-Fibre Agreement. While the industry has now stabilized, it has become clear that Lesotho must expand its exports into sectors where it has a natural advantage and is less vulnerable to changes in the fickle winds of the international trade environment. Thus, there is a critical need to diversify away from textiles to sustain gains already achieved. Embassy Maseru is committed to encouraging Lesotho to optimize its opportunities under AGOA, and will work with the USAID Trade Hub to assist the Basotho people in this regard. We envision the identification of focus sectors IS the first step in this process. END COMMENT.
MURPHY